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UNCLAS SECTION 01 OF 02 ASUNCION 001144

SIPDIS

STATE FOR WHA/BSC AND EB/IFD/OIA  
STATE PASS TO USAID FOR LAC/AA  
STATE PASS TO USTR FOR LYANG  
NSC FOR SUE CRONIN  
TREASURY FOR OSIA MAUREEN WAFER  
TREASURY FOR OTA WARFIELD, VAN KOCH, MILLAR  
COMMERCE FOR ITA SARAH COOK  
SOUTHCOM FOR POLAD DAN JOHNSON

E.O. 12958: N/A

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SUBJECT: PARAGUAY POLITICAL AND ECONOMIC UPDATE, SEPTEMBER  
4 - 10

1. (U) Summary

- Duarte to Veto Public Bank Law
- Deputies Block Investigation of Amambay Governor
- Esso Scores Judicial Victory
- Duarte-Frutos a Candidate for ANR Presidency
- Castiglioni Meets Senate about US-GOP Relations

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Duarte to Veto Public Bank Law  
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12. (SBU) President Duarte announced that he would veto the first tier public bank law when it reaches his desk, a significant signal of his commitment to real structural reform. Earlier this year, the Senate passed the law, meant to reform Paraguay's largest, and bankrupt, state bank, but introduced a series of changes that significantly weakened the reform value of the law. President Duarte reportedly pressured the Lower House to pass the original version presented by the executive, but it too introduced a number of changes that would arguably worsen the viability of the current system and would cost the government millions in excessive severance packages for current public bank employees. Both houses of Congress are now controlled by a coalition of parties that support the current government. In fact, the Colorado Party holds the leadership of a number of Congressional Commissions. As a result, President Duarte's announcement to veto the legislation carries a political price and therefore sends a positive signal with respect to the President's commitment to fiscal responsibility and to the rejection of actions by Congress that undermine serious structural reform. The Minister of Finance and other interested parties such as Economic Advisor Walde and the IDB and IMF resident representatives lobbied President Duarte on the importance of the reform of the state banks, while populists in the Colorado Party pushed in the other direction. That reform appears to have won out in this highly visible case is a positive development.

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Deputies Block Investigation of Amambay Governor  
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13. (U) Roberto Acevedo, the Amambay Department Governor, has been recently accused of having business connections with Brazilian drug trafficker Fahd Yamil. Acevedo hails from the opposition Authentic Liberal Party (PLRA). Politicians from the Colorado Party had proposed to discuss supposed links between Acevedo and Yamil, establishing a special investigative committee. On 9/2, it was reported that the PLRA bloc in the Chamber of Deputies had prevented this investigation in Congress from being opened claiming the investigation was politically instituted. (COMMENT: Acevedo publicly denounces drug traffickers in Pedro Juan Caballero, the center for much of Paraguay's drug trafficking activities, and supports US efforts. In August, he told Polcouns newspaper reports of his alleged involvement with Fahd Yamil were funded by drug traffickers seeking to destroy his reputation and that Colorado Party officials similarly sought to attack him for political gain. Post has seen no credible evidence tying Acevedo to Fahd Yamil's drug trafficking activities and consider credible his complaint that charges are politically instituted. End Comment.)

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Esso Scores Judicial Victory  
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14. (U) After fighting a losing battle for several years to try to dismiss a former employee it accused of sexual harassment, Esso Paraguay finally won the ability to terminate the employee, albeit with the payment of a significant severance package mandated by law, in a ruling by the Supreme Court that Esso's general manager said probably would not have been possible under the previous court. (NOTE: One of President Duarte's early moves in 2003 after

taking office was to replace six of nine Supreme Court justices, supposedly for corruption. Many observers question whether the "new" court is much better, although Esso considers this verdict a major success. End note.) Paraguay,s inflexible labor laws grant employees with ten years of service "stability" which means they cannot be removed except for cause validated by the judicial system. Esso complained that the former employee,s strong connections to the judicial system (at least two relatives are judges) stacked the system against Esso, which lost the fight to terminate without paying severance. They then pursued the argument that they could not reinstate the employee given the level of animosity generated by the circumstances. After losing in the lower courts and on appeal, the Supreme Court ruled in Esso,s favor, effectively closing the case. The indemnity that Esso will have to pay under the labor law is significantly lower than the settlement originally sought by the former employee. According to Esso, the decision is a strong positive signal, all the more so because, according to the general manager, Esso did not undertake any efforts to lobby or influence the courts other than their legal arguments.

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Duarte-Frutos a Candidate for ANR Presidency  
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15. (U) Two weeks ago, it was reported that President Nicanor Duarte Frutos was planning to become a candidate for the Colorado Party (ANR) presidency. ANR members called on Duarte to officially announce his candidacy to limit the campaigning. On 9/7, Duarte announced officially his candidacy for the Party Presidency. ANR officials have indicated that if Duarte wins, he would appoint an Executive Board first vice president, who would become the acting president, because he would not be able to assume the position. Duarte's supporters have also announced their intention to move up the election from June to February of next year. Opposition Colorado leaders have told PolCouns that they are exploring prospects for a unified list as well as possible court petition challenging Duarte's right under the Constitution to serve as both President of the Republic and President of the Colorado Party. (NOTE: Post will report more on this issue in septel. End Note.)

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Castiglioni Meets Senate about US-GOP Relations  
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16. (U) Vice President Luis Castiglioni appeared before the Senate on September 8 to discuss the reasons for SECDEF Donald Rumsfeld's recent visit to the country. Castiglioni explained that the visit was to strengthen US-Paraguayan relations. During the hearing, Senator Jose Nicolas Morinigo, of the leftist Country in Solidarity Party (PPS) stated that he will petition for the Senate to revise the bilateral agreement which allows for the presence of US troops in Paraguay. In the past, senior MFA officials have told us it has no intention of renegotiating the current bilateral agreement for military cooperation that extends through 2006. (NOTE: Post will report further on Castiglioni's Senate visit in septel. End Note.)  
KEANE